The merger of AT&T and McCaw Cellular, and Bell Atlantic's successful lawsuit that permits it to own cable TV systems in its own territory punctuate an already compelling argument for the total overhaul of government regulation of communications technologies and the companies that sell them.

The current patchwork of state and federal communications regulations is the legacy of the industry's 19th century monopoly, which erected barricades between telecom, broadcast and radio services. Conventional regulation also reflects the public utility bias against competitive entry, which quarantines customers from alternative choices and acts as a dead weight on communications innovation.

It's no coincidence that the old government-regulated Bell system was characterized by all the consumer-pleasing, innovative vigor of a Soviet-style regulatory regime—a black, rotary dial telephone with a handset that could double as an anchor for a small rowboat.

But the "leaky" technologies upon which these services are based ignore politically drawn borders and subvert monopoly by spilling over into each others' domains. As government has been forced to recede from its intrusive regulatory role, a rising tide of creative communications innovations is turning into a flood of competitive information services that threatens to wash away the old regulatory order.

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Lift Competition Restrictions
Regulators should dismantle regulatory quarantines among communications competitors. Historically, government regulations have allocated markets to communications providers on the basis of technology, content and geography, but restricted them from competing with one another. Although that posture initially helped competition take root, the restrictions have outlived their usefulness and now only restrict consumers' choices.

Recent industry rearrangements are attempts to break the quarantine, but competition won't blossom fully until governments, at the very least, remove the legal restrictions that prevent local and long-distance telephone companies from competing head-to-head and permit cable companies and telcos to compete for the same video, voice and data services.

Regulators should liberalize the licensing of the broadcast spectrum. America's global competitive place in the information age is...
Walls continued

tied to the success of wireless communications services. But consumers have yet to enjoy its wonders because the federal government cannot resolve the issue of what to do about the radio spectrum, the pipeline over which wireless services will travel.

Abundant spectrum should be made available immediately to creative entrepreneurs who will bring to market valuable new products at increasingly declining prices. Congress and the Federal Communications Commission should authorize an allocation of maximum spectrum for new services through the use of auctions, issue a liberal number of competing service licenses and allow under-used spectrum allocations to be sold and reallocated.

Open the Local Markets

Local franchise restrictions must end. There is vigorous competition today for the profitable high-traffic business in many metropolitan areas, which is a prelude to even broader local competition tomorrow. Yet regulation of local telecommunications in most states is predicated on the public utility monopoly franchise of the 1950s. Consequently, state regulators often equate the ability of the incumbent company to thrive with the protection of consumers.

If we have learned anything in the last 30 years, however, it is that consumers are best protected by the creation of open markets accessible to creative risk takers trying to build better mousetraps. Then consumers only will need protection from the stampede of competitors beating a path to their doors.

Regulators should require network interconnection and the unbundling of basic services. State regulators can stimulate local competition by mimicking the federal experience in opening the long-distance network. Local regulators should aggressively mandate interconnection of the local phone company’s network with the networks of new competing local service sellers. This move will allow a competing local provider to connect its facilities to the switching facilities of the local phone company to offer customers alternative routes and value-enhanced services.

Mandated unbundling of the local incumbent’s network services will allow both sellers and customers to customize their communications services by building on the phone company’s existing array of offerings. It also will spur further development of new services and promote efficiencies by enhancing consumers’ choices.

Restructure Rate Regulations

It is necessary to reform local telco regulation and use market solutions to keep the needy on the network. The current public utility regulation of local phone company profits, which stifles innovation by distorting investment decisions, should be junked in favor of temporary price regulations that can be abandoned when competition emerges for all the incumbent’s services.

In the meantime, indexing price movements for non-competitive services to price movements for competitive services will allow the telco to respond to its competitors while flowing the benefits of competition to the remaining customers of monopoly services.

State tax-and-spend policies that keep residential rates artificially low by overcharging businesses, subsidizing rural areas and overcharging urban areas, regardless of need, are unfair and suppress the introduction of competitive alternatives. If needy individuals require assistance to stay on the network, market-based, means-tested programs should be created.

Today’s technologically driven communications innovations are creating new markets that are finding ways around statist political accommodations. To guarantee that in the future the supply of communications products is played out in a vibrant, competitive arena, there must be a transition that rejects regulator-based denial of choices and enshrines regulator-led choice enhancement.

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